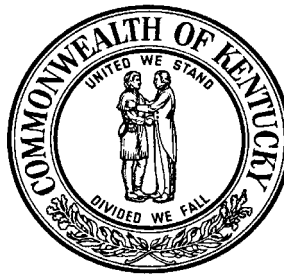


**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**August 19, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable Kent Clark, Madison County Judge/Executive

Honorable Cecil Cochran, Jr., Madison County Sheriff

Members of the Madison County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Madison County Sheriff's Settlement - 2002 Taxes as of August 19, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Madison County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**August 19, 2003**

**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
Louisville, KY 40299  
Telephone (502) 499-9088  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MADISON COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**August 19, 2003**

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Madison County Sheriff as of August 19, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$22,070,218 for the districts for 2002 taxes, retaining commissions of \$598,164 to operate the Sheriff's office. The Sheriff distributed taxes of \$21,451,487 to the districts for 2002 Taxes. Taxes of \$112 are due to the districts from the Sheriff and refunds of \$159 are due to the Sheriff from the taxing districts.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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Honorable Cecil Cochran, Jr., Madison County Sheriff

Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the Madison County Sheriff's Settlement - 2002 Taxes as of August 19, 2003. This tax settlement is the responsibility of the Madison County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Madison County Sheriff's taxes charged, credited, and paid as of August 19, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 4, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Honorable Cecil Cochran, Jr., Madison County Sheriff  
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
September 4, 2003

MADISON COUNTY  
 CECIL JOHNSON JR., COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

August 19,2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,834,299	\$ 3,111,354	\$ 11,045,802	\$ 2,983,498
Tangible Personal Property	206,417	401,454	1,056,671	993,472
Intangible Personal Property				222,480
Fire Protection	61			
Increases Through Exonerations	5,334	30,550	31,520	8,676
Franchise Corporation	137,958	231,412	778,539	
Additional Billings	55	91	323	90
Limestone, Sand, and Mineral Reserves	212	357	1,239	345
Bank Franchises	158,123			
Penalties	12,259	20,917	73,695	21,435
Adjusted to Sheriff's Receipt	31	1,899		30
Gross Chargeable to Sheriff	<u>\$ 2,354,749</u>	<u>\$ 3,798,034</u>	<u>\$ 12,987,789</u>	<u>\$ 4,230,026</u>
<u>Credits</u>				
Exonerations	\$ 26,916	\$ 45,569	\$ 147,272	\$ 30,769
Discounts	34,980	55,422	188,549	67,363
Delinquents:				
Real Estate	51,499	87,701	310,463	83,757
Tangible Personal Property	8,818	14,884	44,627	31,853
Intangible Personal Property				7,368
Uncollected Franchise	7,459	12,591	42,520	
Total Credits	<u>\$ 129,672</u>	<u>\$ 216,167</u>	<u>\$ 733,431</u>	<u>\$ 221,110</u>
Taxes Collected	\$ 2,225,077	\$ 3,581,867	\$ 12,254,358	\$ 4,008,916
Less: Commissions a)	94,853	148,829	183,815	170,667
Taxes Due	\$ 2,130,224	\$ 3,433,038	\$ 12,070,543	\$ 3,838,249
Taxes Paid	2,128,312	3,429,825	12,058,238	3,835,112
Refunds (Current and Prior Year)	1,899	3,192	12,403	3,120
Due Districts or (Refunds Due Sheriff)		b)	c)	
as of Completion of Fieldwork	<u>\$ 13</u>	<u>\$ 21</u>	<u>\$ (98)</u>	<u>\$ 17</u>

a), b), and c) See Page 4.

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY  
 CECIL JOHNSON JR., SHERIFF  
 SHERIFF'S SETTLEMENT - 2002 TAXES  
 August 19,2003  
 (Continued)

a) Commissions:

10% on	\$	10,000
4.25% on	\$	8,445,740
4% on	\$	1,360,120
1.5% on	\$	12,254,358

b) Special Taxing Districts:

Library District	\$	4
Health District		7
Extension District		2
Ambulance District		8
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	21
		<hr/> <hr/>

c) School Districts

Common School District	\$	61
Richmond District		(57)
Berea District		(102)
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	(98)
		<hr/> <hr/>

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENT

August 19,2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 19, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 19, 2003  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2002 through April 15, 2003.

Note 4. Interest Income

The Madison County Sheriff earned \$1,821 as interest income on 2002 taxes. As of September 4, 2003, the Sheriff owes \$20 in interest to the Mason county school district and \$5 in interest to the Richmond school district. The Sheriff is due \$20 in interest from the Berea school district and \$20 in interest from the fee account.

Note 5. Sheriff's 10% Add-On Fee

The Madison County Sheriff collected \$94,108 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Madison County Sheriff collected \$2,490 of advertising costs and \$6,680 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). Since the Sheriff pays the advertising cost, he transferred the advertising cost to the fee account and the advertising fees were used to operate the Sheriff's office.



COMMENT AND RECOMMENDATION



MADISON COUNTY  
CECIL "DUDE" COCHRAN, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of August 19, 2003

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations.

*County Sheriff's Response:*

*None.*

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Madison County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Madison County Sheriff's Settlement - 2002 Taxes as of August 19, 2003, and have issued our report thereon dated September 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Madison County Sheriff's Settlement - 2002 Taxes as of August 19, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
September 4, 2003



